



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427



J. TYLER McCAULEY
AUDITOR-CONTROLLER

March 13, 2001

To: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: J. Tyler McCauley *Michael D. Antonovich*
Auditor-Controller

Subject: **OLIVE VIEW MEDICAL CENTER COMPUTER SYSTEM PURCHASES**

In October 2000, Internal Services Department (ISD) management informed my office that, on two separate occasions, Olive View Medical Center (OVMC) might have violated County purchasing rules in the acquisition of computer hardware and software. ISD asked my office to review the purchases.

We found that OVMC failed to comply with County purchasing policies and guidelines in acquiring computer hardware and software. Details of the results of our review are included in the attached report.

Based on the failure to comply with County purchasing policies, we have recommended that ISD reduce OVMC's delegated purchasing authority from \$15,000 to \$5,000, except for critical clinical needs, until we complete a thorough review of OVMC's purchasing practices. We have also recommended that DHS take appropriate disciplinary action with the OVMC staff involved in the purchases.

We discussed the results of our review with DHS and OVMC Financial Management. They indicated they have implemented controls to prevent future exceptions. OVMC also indicated that they are working with County Counsel to try to avoid paying the vendor the final payment for one of the computer systems because the equipment has not worked in three years.

March 13, 2001

If you have any questions, please call or your staff can call Pat McMahon at (213) 974-0301.

JTM:PTM:js

c: Mark Finucane, DHS
David E. Janssen, CAO
Violet Varona-Lukens, Executive Officer
Joan Ouderkirk, ISD
Lloyd W. Pellman, County Counsel
Audit Committee (6)

OLIVE VIEW MEDICAL CENTER COMPUTER SYSTEM PURCHASES

Background

In October 2000, Internal Services Department (ISD) management informed my office of two possible violations of County purchasing rules by Olive View Medical Center (OVMC):

- ISD received a complaint from a vendor that OVMC had not paid a 1999 invoice. In reviewing this issue, ISD also found that OVMC appeared to have violated County purchasing rules in the acquisition of a \$500,000 Radiology computer system (software and hardware).
- OVMC requested ISD to process a purchase order for a \$120,000 upgrade to a Women's Health computer program (software). In reviewing that request, ISD found that OVMC appeared to have violated County purchasing rules in the acquisition of the software.

Scope

At ISD's request, we reviewed these purchases. Our review consisted of interviews with ISD, OVMC and vendor management and staff and examinations of related documents.

Results of Review

Our review disclosed that, in both instances, OVMC did not comply with a number of County purchasing rules in acquiring the computer system and software. The following are the findings of our review.

- **OVMC purchased a \$500,000 Radiology computer system and a \$60,000 Women's Health software program without complying with County purchasing rules for obtaining bids, Board approval or ISD's assistance.**

In 1995, OVMC's Chief of Radiology wanted to replace the Radiology computer system (hardware and software). He discussed this with OVMC's Materials Manager and arrangements were made to have the vendor install a new \$500,000 system. Also, in June 1999, the Chief of Obstetrics and Gynecology (OB/GYN) purchased new computer software for the Women's Health Aftercare program for \$60,000. The Chief of OB/GYN indicated that the software was needed for an 1115 Waiver-related project.

County purchasing rules allow departments to make purchases up to \$5,000 or \$15,000 depending on the department. For purchases over \$1,500, departments must obtain three bids. Purchases in excess of the \$5,000 or \$15,000 limits must be processed by ISD.

OVMC purchased both the \$500,000 Radiology system and the \$60,000 Women's Health software without having ISD process the purchases. In addition, OVMC did not obtain bids for the system/software and did not notify the Board of Supervisors of the sole-source purchases. (ISD automatically notifies the Board of all sole-source purchases over \$5,000.)

OVMC indicated they considered the Radiology system to be an upgrade under the existing equipment maintenance contract. OVMC indicated the upgrade was needed because the prior vendor had gone out of business. However, based on the vendor providing some new equipment, the \$500,000 cost of the "upgrade" and the need to extend the prior maintenance contract, this appears to be a new system purchase that should have been processed by ISD. OVMC indicated the Womens' Health system was purchased without bids because the facility did not believe any other software could meet their needs. Nevertheless, OVMC should have had ISD process the purchase.

- **OVMC did not have a signed contract for the purchase of the Radiology computer system or the Women's Health software program.**

Neither OVMC nor the vendors were able to provide us with a signed contract for the purchase of the system or the software. A signed contract should be obtained to document the County's and vendor's responsibilities and protect the County's interests if the vendor does not meet the County's requirements.

- **OVMC used a blanket purchase order established for equipment maintenance to pay for the Radiology system and split the payments for both the Radiology and Women's Health software purchases to circumvent maximum amount guidelines.**

ISD issues purchase orders for supplies and services. Services purchase order rules limit payments to a single vendor to \$100,000. Services that cost over \$100,000 a year must be approved by the Board or made under a Board-approved contract. OVMC used an equipment maintenance service purchase order to pay for the Radiology system. Because the Radiology system cost (\$500,000) exceeded the \$100,000 annual maximum for a services purchase order, OVMC arranged with the vendor to pay for the system over a five-year period. County purchasing rules require that purchases not be split to stay under a purchase order maximum. In addition, the payments were made using four different blanket purchase orders that were intended for equipment maintenance services, not system/software purchases. Using an equipment maintenance purchase order to pay for an equipment purchase is a violation of County purchasing rules.

OVMC paid for the Women's Health software in three \$20,000 payments. One payment was made in FY 1998-99 and two payments were made in FY 1999-2000. We found that OVMC did not set up a payable for the \$40,000 paid in FY 1999-2000. Instead, the \$40,000 was inappropriately paid using a 1998-99 payable established for services. The

items for which the payable was originally established were subsequently inappropriately paid for using petty cash and charged to FY 1999-00 purchase orders.

OVMC management claims they split the payments for the Womens' Health system payments to ensure the purchase was made in the year in which budgeted funds were available and because OVMC wanted to ensure the system was installed and tested before paying the entire amount. However, the payment arrangement should have been specified in a Board approved contract.

- **OVMC made four annual payments for the Radiology system without approved invoices.**

County purchasing rules require that County staff approve invoices before payment is made to verify that the services or supplies were received. OVMC Materials Management staff issued four payments for the system for approximately \$99,000 each without approved invoices.

- **OVMC continued to make payments for the Radiology system even after the system stopped working.**

OVMC continued to make payments for the Radiology system even after the equipment became partially inoperative in 1997. As noted above, neither OVMC nor the vendor could produce a signed contract that committed the County to making the payments. The Chief of Radiology indicated that, on two occasions, he instructed the former Materials Manager not to pay the 1997 invoice. However, the payment had already been made. (We were unable to contact the former materials manager who retired in 1998). The Chief of Radiology indicated he also tried to stop the 1998 payment, but the payment was authorized by the new acting Materials Manager.

Recommendations

Prior to 1999, all County departments had authority to make purchases up to \$5,000 without ISD's involvement. In 1999, based on a State auditor's recommendation, departments could be given increased purchasing authority up to \$15,000. The increased authority was based on a department's compliance with County purchasing rules as documented in the Internal Control Certification Program (ICCP) worksheets. OVMC was given increased purchasing authority in 1999.

Based on OVMC's failure to comply with County purchasing rules, we recommend that ISD reduce OVMC's delegated purchasing authority from \$15,000 to \$5,000, except for critical clinical needs. (The reduction should remain in effect until my office reviews OVMC's purchasing operations for compliance with County policies and procedures.) In addition, DHS management should take appropriate disciplinary action with the OVMC staff involved in making these purchases and processing the payments.

- 1. ISD reduce OVMC's delegated purchasing authority from \$15,000 to \$5,000, except for critical clinical needs.**
- 2. DHS management take appropriate disciplinary action with OVMC staff involved in making these purchases and processing the payments.**